



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application of **California-American Water Company** (U 210 W), for an Interest Rate of 8.33% for Allowance for Funds Used During Construction (AFUDC) for its San Clemente Dam Memorandum Account.

A.07-02-023
(Filed February 20, 2007)

**REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES TO THE
OPENING BRIEF OF CALIFORNIA-AMERICAN WATER COMPANY**

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September 7, 2007

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I. INTRODUCTION

Pursuant to Rule 13 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"), the Division of Ratepayer Advocates ("DRA") files its reply brief to the opening brief of California-American Water Company ("Cal Am") in Application ("A.") 07-02-023 for an interest rate of 8.33% for Allowance for Funds Used During Construction ("AFUDC") for its San Clemente Dam Memorandum Account.

For the reasons stated below, the Commission should reject Cal Am's request for an AFUDC rate at its authorized cost of capital (8.33%) for the San Clemente Dam Memorandum Account. The Commission should use the 90-day commercial paper rate for AFUDC consistent with established precedent for water utility AFUDC. Cal Am has not substantiated its claims that allowing Cal Am to recover its authorized cost of capital for AFUDC rate is 1) beneficial to Cal Am and its customers; 2) consistent with the Commission's infrastructure policy; or 3) consistent with Commission precedent as to water utility AFUDC rate.

II. BACKGROUND

In the early nineties, the California Department of Water Resources, Division of Dam Safety ("DSOD") requested that Cal Am evaluate the seismic safety of the San Clemente Dam. Consultants determined that the San Clemente Dam lacked the

structural integrity to withstand the forces of a Maximum Credible Earthquake. The DSOD directed Cal Am to pursue seismic safety remediation measures upon the completion of environmental review. Due to various reasons, the environmental review process still has not been completed.

From the commencement of the San Clemente Dam seismic remediation process in the early nineties until 2003, the costs associated with the remediation process were tracked as AFUDC in a memorandum account accruing interest at the 90-day commercial paper rate. As a result of Decision (“D.”) 03-02-030, San Clemente Dam Project costs were included in Construction Work in Progress in rate base. However, in D.06-11-050 the Commission returned to its policy of AFUDC treatment for San Clemente Dam Project costs pending review of a final project proposal.¹ Due to uncertainty regarding the appropriate AFUDC rate for this project, the Commission ordered Cal Am to file an application addressing what AFUDC rate should be used for the San Clemente Dam Project memorandum account.² On February 20, 2007 Cal Am filed A.07-02-023 requesting, in part, authorization for an interest rate of 8.33% for AFUDC for San Clemente Dam Project Costs.

¹ D.06-11-050, *In the Matter of the Application of California-American Water Company (U 210 W) for an order authorizing it to increase its rates for water service in its Monterey District to increase revenues by \$ 9,456,100 or 32.88% in the year 2006; \$ 1,894,100 or 4.95% in the year 2007; and \$ 1,574,600 or 3.92% in the year 2008; and for an order authorizing sixteen Special Requests with revenue requirements of \$ 3,815,900 in the year 2006, \$ 5,622,300 in the year 2007, and \$ 8,720,500 in the year 2008; the total increase in rates for water service combined with the sixteen Special Requests could increase revenues by \$ 13,272,000 or 46.16% in the year 2006; \$ 7,516,400 or 17.86% in the year 2007; and \$ 10,295,100 or 20.73% in the year 2008; In the Matter of the Application of California-American Water Company (U 210 W) for Authorization to Increase its Rates for Water Service in its Felton District to increase revenues by \$ 796,400 or 105.2% in the year 2006; \$ 53,600 or 3.44% in the year 2007; and \$ 16,600 or 1.03% in the year 2008; and for an order authorizing two Special Requests, 2006 Cal. PUC LEXIS 479.*

² *Id.* at *67.

III. AN AFUDC RATE SET AT THE 90-DAY COMMERCIAL PAPER RATE IS APPROPRIATE FOR THE SAN CLEMENTE DAM PROJECT COSTS

A. Cal Am has not Provided Sufficient Evidence that an AFUDC Rate Set at 90-day Commercial Paper Rate will not Make it Whole

Cal Am claims that an AFUDC rate set below its authorized cost of capital (8.33%), will not make it whole for its San Clemente Dam Project costs.³ Cal Am insists it should receive “at least the ongoing cost to finance the project.”⁴ However, Cal Am has not substantiated its claim by providing evidence that the potential costs to finance the project will be higher than the amounts it would recover if AFUDC were to accrue at the current 90-day commercial paper rate.⁵ Cal Am indicates that it will recover \$4.6 million less if the 90-day commercial paper rate is used, but Cal Am has not demonstrated that the additional \$4.6 million is necessary to cover costs related to the San Clemente Dam Project.⁶

The San Clemente Dam Project is nowhere near completion. The environmental review process is still under way and the precise scope and extent of the final project has not yet been determined. Moreover, the completion date is still uncertain. Although Cal Am has incurred costs related to the San Clemente Dam Project, these costs are best described as pre-project costs such as preliminary engineering, design and environmental review. Therefore, Cal Am should recover AFUDC rate set at the 90-day commercial paper rate since the costs are at a level easily met from ongoing operations or financed with short-term borrowings. Therefore, the 90-day commercial paper rate should apply until the project is completed or at least until construction begins.

³ Cal Am Opening Brief, p. 4.

⁴ *Id.*

⁵ The 90-day commercial paper rate is 5.43% as of 8/31/2007.
http://www.federalreserve.gov/Releases/H15/data/Business_day/H15_FCP_M3.txt

⁶ Cal Am Opening Brief, Declaration of David P. Stephenson, ¶ 9.

Cal Am can receive its authorized rate of return once the San Clemente Dam Project is completed, deemed used and useful, and entered into ratebase.

B. Cal Am has not Substantiated that the San Clemente Dam Project's Risk Level has Caused Investors to Require a Higher Rate of Return

Cal Am contends that the AFUDC rate for the San Clemente Dam Project should be set at its authorized cost of capital due to the increased risk it faces due to the: 1) reasonableness review for the project; 2) the length of financing for the project; and 3) the AFUDC treatment of the project.⁷

First, Cal Am's argument regarding increased risk due to the reasonableness review of San Clemente Dam Project costs lacks support. The San Clemente Dam Project has been going on since the early nineties. The investment community has been aware of the issues concerning the San Clemente Dam Project during this time and that all project costs will be subject to a reasonableness review by the Commission, as are other capital project costs.

Cal Am has offered no proof that the investment community finds the prospect of a reasonableness review risky enough to require an increase in return. Moreover, the expected level of recovery for the project costs is already incorporated into the parent company's stock price because the current stock price reflects investors' expectations as to performance, including recovery of investments in system infrastructure. The return on equity analysis also captures any perceived risk on the part of the investment community because it derived from market-based models.

Second, Cal Am's claim that the AFUDC rate should be higher to reflect risk from the length of financing for the San Clemente Dam Project lacks merit. Again Cal Am speculates that the alleged risk due to the length of financing has deleteriously affected its position in the investment community but offers no evidence. As with the risk attributable to a reasonable review, the investment community has been aware of any

⁷ Cal Am Opening Brief, pp. 6-9.

issues related to the length of financing for the San Clemente Dam Project and any increased risk has been captured by the company's stock prices and authorized return on equity. No excess return is needed to compensate for the project's length of financing.

Additionally, Cal Am's claim that D.06-11-050 contradicts the use of a 90-day commercial paper rate for AFUDC is a mischaracterization.⁸ D.06-11-050 indicated that an AFUDC rate that also reflects long-term debt and equity "may" be appropriate to the length of the project.⁹ The decision did not make a ruling as to the appropriate AFUDC rate for San Clemente Dam Project costs, only that the rate "may" be higher than the 90-day commercial paper rate. If D.06-11-050 had definitively ruled on the appropriate AFUDC rate, this proceeding would be unnecessary.

Third, Cal Am's assertion that AFUDC ratemaking treatment for the San Clemente Dam Project increases risks and therefore justifies a higher AFUDC rate has no basis.¹⁰ Again, Cal Am has offered no proof that the investment community finds the AFUDC ratemaking treatment for this isolated project problematic enough to increase capital costs for the company as a whole. Apart from a period from 2003 to 2006, the San Clemente Dam Project costs have received AFUDC ratemaking treatment accruing interest at the 90-day commercial paper rate since the beginning of the project.¹¹ The investment community has been aware of the ratemaking treatment for the San Clemente Dam Project costs and any increased risk has been captured by the company's stock prices and authorized return on equity.

⁸ *Id.* at 8.

⁹ 2006 Cal. PUC LEXIS 479, p. *67.

¹⁰ Cal Am Opening Brief, p. 9.

¹¹ 1993 Cal. PUC LEXIS 775, pp. *18 and 26; 1996 Cal. PUC LEXIS 1066, p.*53; 2000 Cal. PUC LEXIS 229, pp. *11-12; 2006 Cal. PUC LEXIS 479, pp. *64-66.

C. Cal Am has not Demonstrated that an AFUDC Rate Set at the 90-Day Commercial Paper Rate will Harm Customers

Cal Am also claims that a San Clemente Dam Project AFUDC rate set at a rate other than its authorized cost of capital may harm its customers because of a possible increase in capital costs.¹² This is a purely speculative argument. Cal Am has not provided any evidence that its capital costs **have or will** be affected by an AFUDC rate set at the 90-day commercial paper rate. Therefore, any potential harm to customers is also speculative.

Contrary to Cal Am's claims, its customers will not be harmed by a lower AFUDC rate. Using an AFUDC rate set at Cal Am's authorized cost of capital will impose a substantial new revenue burden on Cal Am's customers. The higher AFUDC rate will incorporate an additional \$4.6 million into the total project costs.¹³ If the San Clemente Dam Project costs are added to ratebase, Cal Am will receive its authorized cost of capital on this higher project cost. Cal Am's customers will have to pay for these increased costs. At a time when Cal Am's Monterey District customers already face significant increases in their rates, it is vital to protect against the harm of additional unwarranted rate increases.

If anything, Cal Am's ability to access to capital has improved of late due to the recent Commission decision approving the transfer of indirect control from RWE Aktiengesellschaft ("RWE") to American Water.¹⁴ In that proceeding, the applicants contended that:

¹² Cal Am Opening Brief, p. 10.

¹³ Cal Am Opening Brief, Declaration of David P. Stephenson, Exhibit 1.

¹⁴ American Water provides professional and staff services to its utility subsidiaries, including Cal-Am, through its wholly owned subsidiary American Water Works Service Company. American Water also provides cash management and debt funding to its subsidiaries through its wholly owned subsidiary American Water Capital Corporation (AWCC). D.07-05-031, *In the Matter of the Application of California- American Water Company (U-210-W), a California Corporation, RWE Aktiengesellschaft, a Corporation Organized Under the Laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a Corporation Organized Under the Laws of the Federal Republic of Germany, and American Water Works Company, Inc. for an* (continued on next page)

“... the approval of the proposed transaction will enhance its ability to access capital in the United States debt and equity markets, access which is not currently available under the private ownership of RWE. American Water must currently compete for capital with the core energy operations of RWE, whose capital requirements are greater than were anticipated at the time RWE acquired American Water.”¹⁵

IV. The Water Action Plan does not justify an AFUDC rate higher than the 90-day commercial paper RATE

Cal Am justifies an AFUDC rate at its authorized cost of capital by alleging support from the Commission’s 2005 Water Action Plan (“WAP”). The WAP finds that California’s water infrastructure needs significant improvement and endeavors to encourage investment in infrastructure needed to improve water quality.¹⁶ However, the WAP’s own language indicates that Cal Am’s reference is misapplied. The WAP established an objective to replace infrastructure needed to “improve water quality.” None of the alternatives being considered for the San Clemente Dam Project will “improve water quality.” At best, the buttressing alternative will provide a dam with an extremely limited capacity for surface water diversion. If either the river bypass or dam removal alternative are utilized, the San Clemente Dam Project will cease to be part of Cal Am’s water system infrastructure altogether. The purpose of the alternatives is to remedy a seismic safety issue, not the improvement of water quality.

Furthermore, the WAP is a guideline, not the product of a Commission decision or resolution. The WAP does not establish policy, rather it identifies major policy issues concerning the regulation of investor owned water utilities and suggests possible solutions. The purpose of the WAP is to initiate a process where the Commission

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Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Resulting in a Change of Control of California-American Water Company and For Such Related Relief as May be Necessary to Effectuate Such Transaction, 2007 Cal. PUC LEXIS 140, p. *8.

¹⁵ *Id.* at *14-15.

¹⁶ Water Action Plan, p. 4.

explores “innovative solutions” to these major policy issues.¹⁷ Therefore, the WAP’s objectives should not be used to justify a change in the Commission’s policy as to AFUDC for water utilities.

V. THE 90-DAY COMMERCIAL PAPER RATE FOR AFUDC IS CONSISTENT WITH COMMISSION PRECEDENT

A 90-day commercial paper interest rate for AFUDC is consistent with long-established Commission precedent for AFUDC as applied to water utilities.

A. The 90-day Commercial Paper Rate is Consistent with Established Precedent for Water Utility AFUDC

The Commission determined in D.94-06-033 that the 90-day commercial paper rate was the appropriate interest rate for balancing and memorandum accounts that track problematic expenditures for long-term projects for water utilities. Since adopting D.94-06-033, the Commission has consistently applied the 90-day commercial paper as the interest rate for water utility AFUDC. Cal Am claims that D.94-06-033 is outdated and does not apply in this proceeding because the San Clemente Dam Project is more costly and risky than the projects identified in D.94-06-033.¹⁸ However, Cal Am does not reference a specific decision indicating that the policy in D.94-06-033 is no longer relevant. In fact, the Commission determined in D.03-09-022 that the 90-day commercial paper rate was appropriate for Cal Am’s own Coastal Water Project, a project similar in cost, risk and uncertainty to the San Clemente Dam Project.¹⁹

In D.03-09-022, the Commission found that the appropriate AFUDC interest rate for the memorandum account tracking the costs associated with preliminary engineering studies, environmental studies, analysis of necessary permitting requirements, and

¹⁷ *Id* at 3.

¹⁸ Cal Am Opening Brief, p. 17.

¹⁹ D.03-09-022, *In the Matter of the Application of CALIFORNIA-AMERICAN WATER COMPANY (U 210 W) for a Certificate that the Present and Future Public Convenience and Necessity Requires Applicant to Construct and Operate the 24,000 acre foot Carmel River Dam and Reservoir in its Monterey Division and to Recover All Present and Future Costs in Connection Therewith in Rates*, 1997 Cal. PUC LEXIS 1279.

development of cost estimates for Cal Am's proposed Coastal Water Project was the 90-day commercial rate, not its authorized cost of capital.²⁰ The Commission based its decision on the fact that uncertainty existed as to when construction would commence and that construction time for the project would be significant.²¹

Cal Am incorrectly asserts that D.03-09-022 is not relevant because it was a "case-specific determination of ratemaking treatment for a particular project."²² D.03-09-022 contains no language limiting its rationale to only the Coastal Water Project. The decision merely indicates that the Coastal Water Project is distinguishable from typical water utility construction projects because of the uncertainty of the project and the significant time period likely required for construction.²³

D.03-09-022 is clearly applicable to this proceeding due to the similarities between the Coastal Water Project and the San Clemente Dam Project. As with the Coastal Water Project, the outcome for the San Clemente Dam Project is completely uncertain. The DSOD and United States Army Corps of Engineers are currently studying four very different alternatives to address the seismic safety concerns, including dam strengthening, dam notching, river bypass and dam removal. To date the DSOD has not certified an Environmental Impact Report/Environmental Impact Statement ("EIR/EIS") regarding the four alternatives. Therefore, at this time, it is uncertain what seismic remediation alternative will be used. Additionally, a significant potential for litigation exists once the EIR/EIS is certified, which could further alter the final project determination and slow down the process further.

Like the Coastal Water Project, the construction time required for the San Clemente Dam Project will also be significant, regardless of what alternative is chosen.²⁴

²⁰ *Id.* at *32-33.

²¹ *Id.* at *31-32.

²² Cal Am Opening Brief, p. 16.

²³ 1997 Cal. PUC LEXIS 1279, *32.

²⁴ Cal Am cannot begin any major construction until the DSOD issues a permit. The DSOD may not issue a permit until 180 days after the EIR/EIS is certified. It is unlikely that Cal Am will

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Presently, it is unclear when the San Clemente Dam project will be started, let alone completed. Any of the seismic safety remediation alternatives will likely take several years to complete. Furthermore, the Coastal Water Project and the San Clemente Dam Project are analogous due to their highly controversial natures and extraordinary projected costs.²⁵ Similarities also exist with regard to the types of costs incurred by the two projects so far, largely expenses related preliminary engineering, design and environmental review, not actual construction.

B. The 90-Day Commercial Paper Rate is Consistent with Past Treatment of San Clemente Dam Project Costs

In the four decisions regarding the treatment of the AFUDC rate for the San Clemente Dam Project since 1993, the Commission has adopted the 90-day commercial paper rate as the appropriate AFUDC interest rate.

In both D.93-10-038 and D.96-12-005, the Commission adopted settlements setting the AFUDC rate for the San Clemente Dam Project costs at the 90-day commercial paper rate.²⁶ Additionally, in D.00-03-053, the Commission adopted a settlement that AFUDC for both the San Clemente Dam Project and Carmel River Dam Project accrue at the 90-day commercial paper rate.²⁷

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begin detailed design and engineering until the permit is issued.

²⁵ Estimated San Clemente Dam Costs: \$55,000,000 (Cal Am Opening Brief, Declaration of D. Stephenson, Exhibit 1); Estimated Coastal Water Project Costs: \$191,000,000 (http://www.coastalwaterproject.com/pdf/Notice_CoastalWaterProject_July2005.pdf)

²⁶ D.93-10-038, *In the Matter of the Application of CALIFORNIA-AMERICAN WATER COMPANY (U 210 W) for an order authorizing it to increase its rates for water service in its MONTEREY DISTRICT*, 1993 Cal. PUC Lexis 775, pp. *18 and 26. D.96-12-005, *In the Matter of the Application of California-American Water Company for an order authorizing it to increase its rates for water service in its Monterey Division*. 1996 Cal. PUC LEXIS 1066, p.*53.

²⁷ D.00-00-03-051, *In the Matter of the Application of the California-American Water Company (U210W) for an Order Authorizing it to Increase its Rates for Water Service in its Monterey Division*, 2000 Cal. PUC LEXIS 229, pp. *11-12.

Although DRA recognizes that the adoption of these settlements does not establish binding precedent under Commission Rules, these decisions are useful to illustrate the AFUDC treatment of San Clemente Dam Project costs from the commencement of the project in the early nineties until 2003.

C. The Commission has Adopted AFUDC Rates Below the Authorized Cost of Capital for Energy Industries

Citing D.84-08-125, Cal Am asserts that its requested AFUDC interest rate of 8.33%, its authorized cost of capital is consistent with Commission precedent authorizing energy utilities to accrue AFUDC for major long-term projects at rates that reflect the overall cost of capital.²⁸ First, comparing ratemaking treatment for energy and water utilities is questionable due to the fundamental differences between the industries.²⁹ Even if Commission precedent regarding the appropriate interest rate for AFUDC for energy utilities is considered, that treatment varies considerably.

Second, Cal Am misconstrues the Commission's intent in D.84-08-125. The Commission called for an AFUDC "based on the utility's capital structure *similar* to the overall rate of return."³⁰ D.84-08-125 **does not** advocate use of the authorized cost of capital, rather it calls for an AFUDC based on the capital structure used for a particular project. Cal Am's authorized cost of capital is based on a calculation using the amount of long-term debt and equity. It does not include the short-term debt rate in its calculation. Since some short-term debt will be utilized to finance San Clemente Dam Project costs, an AFUDC rate calculation based on the methodology in D.84-08-125 would be significantly less than Cal Am's authorized cost of capital.³¹

²⁸ Cal Am Opening Brief, p. 15.

²⁹ In part, these differences relate to the nature and source of the commodity being supplied. Water utilities require a different set of regulation standards than those used for less inherently geographical monopolies such as electric and gas utilities.

³⁰ D.84-08-125, Cal. PUC LEXIS 1309, *14, emphasis added.

³¹ See Exhibit 2 - Data Response AFUDC – PHH 2-1.

Furthermore, in D.84-05-013, the Commission determined that an AFUDC interest rate set at the 90-day commercial paper rate was appropriate for an energy utility, San Diego Gas and Electric (“SDG&E”). It ruled that if SDG&E elected to place plant investment costs related to the San Onofre Nuclear Generating Station Unit 1 while it was out of service³² in a memorandum account, these costs would be “subject to the lower AFUDC rate rather than SDG&E's rate of return.”³³ The “lower AFUDC rate” referred to in the decision was the 90-day commercial paper rate.³⁴

D.06-05-016 demonstrates another occasion where the Commission adopted an AFUDC rate that was lower than the authorized cost of capital for an energy utility.³⁵ In D.06-05-016, the Commission adopted an AFUDC rate that included Southern California Edison’s most recent short-term debt rate in its calculation since short-term debt would be used to finance construction activities.³⁶

Lastly, for the sake of comparison with another Commission-regulated industry, the Commission has also determined that the AFUDC rate for telecommunication utilities should not be the authorized cost of capital. D.04-09-061 indicated that the AFUDC rate calculation should reflect the long-term debt rate.³⁷ “The AFDUC rate reflects the

³² “San Onofre Nuclear Generating Station Unit 1 On February 27, 1982, was shut down for the purpose of completing NRC backfit requirements resulting from the Three Mile Island (TMI) incident, NRC fire protection requirements, and limited seismic modifications to the turbine building and other miscellaneous structures. At the time the outage began, Edison expected to return the plant to service in June 1982. During the course of the outage, several events occurred which considerably prolonged the outage.” See 1984 Cal. PUC LEXIS 317, *4.

³³ D.84-05-013, *Investigation on the Commission's own motion to determine whether San Onofre Nuclear Generating Station Unit 1 should be ordered removed from the rate base of Southern California Edison Company and San Diego Gas & Electric Company*, 1984 Cal. PUC LEXIS 317, *40.

³⁴ Ordering Paragraph 3(a). *Id.* at *50.

³⁵ D.06-05-016, *Application of Southern California Edison Company (U 338-E) For Authority to, Among Other Things, Increase Its Authorized Revenues For Electric Service in 2006, And to Reflect That Increase in Rates Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service and Facilities of Southern California Edison Company*, 2006 Cal. PUC LEXIS 189.

³⁶ *Id.* at *319-320.

³⁷ D.04-09-061, *Order Instituting Rulemaking on the Commission's Own Motion to Assess and Revise the New Regulatory Framework for Pacific Bell and Verizon California Incorporated. Order Instituting*

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company's average cost of debt, unless a specific new borrowing is associated with the construction of the project.”³⁸

VI. CONCLUSION

For the reasons stated above, the Commission should deny Cal Am’s request for an interest rate of 8.33% for AFUDC for its San Clemente Dam Memorandum Account. The Commission should instead adopt an interest rate for AFUDC at the 90-day commercial paper rate.

Respectfully submitted,

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Investigation on the Commission's Own Motion to Assess and Revise the New Regulatory Framework for Pacific Bell and Verizon California Incorporated, 2004 Cal. PUC LEXIS 477.

³⁸ *Id.* at *79. See also 47 C.F.R. § 32.2000(c)(x), the Federal Communications Commission’s instructions for telecommunications plant accounts.

Exhibit 1

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**DECLARATION OF PATRICK E. HOGLUND, P.E. IN SUPPORT OF THE
DIVISION OF RATEPAYER ADVOCATES' REPLY BRIEF**

I, Patrick E. Hoglund, P.E., declare:

1. I am a Senior Utilities Engineer in the Division of Ratepayer Advocates Water Branch. My business address is 505 Van Ness Avenue, San Francisco, CA 94102.
2. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within DRA – Water where I work on Class A General Rate Cases. From 1999 through August 2004, I was a Senior Rates Analyst at Pacific Gas and Electric Company, where I worked on a variety of revenue requirement issues related to natural gas. From 1990 through 1997, I was employed by the California Public Utilities Commission. During this time I worked on small water utility rate cases, large water utility rates cases, and also worked in the Telecommunications and Energy Branches of the former Commission Advisory and Compliance Division, as well as in the Division of Ratepayer Advocates.
3. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Industrial Engineering and Operations Research. I am also a graduate of the University of Rochester, William E. Simon School of Business with a Master of Business Administration Degree with concentrations in Finance and Corporate Accounting. I am a licensed professional Industrial Engineer.

4. The current 90-day commercial paper rate used in DRA's Reply Brief is from the Federal Reserve Board's statistical Release H-15. This report can be found at the Board's website:
[http://www.federalreserve.gov/Releases/H15/data/Business_day/H15_FCP_M3.tx](http://www.federalreserve.gov/Releases/H15/data/Business_day/H15_FCP_M3.txt)
t
5. The rate reported for August 31, 2007 is 5.43%. The 90-day commercial paper rate ranged from a low of 5.23% to a high of 5.43% during August 2007.
6. The San Clemente Dam Project is estimated to accumulate approximately \$55,587,449 in annual project costs through the end of 2010 as shown in Exhibit 1 of the Direct Testimony of David P. Stephenson. California American's Coastal Water Project is estimated to cost \$199,706,509 upon completion.
7. California American received Commission approval to issue \$187,000,000 in new long-term debt and common stock in D.06-07-035. California American has issued \$162,000,000 through May 29, 2007.
8. California American refinances all short-term debt annually. California American utilizes a line of credit with American Water Capital Corporation to meet its short-term debt requirements. (See Exhibit 3, Data Response AFUDC - PHH 2-3).

I declare under penalty of perjury under the laws of the state of California that the foregoing is true and correct to the best of my knowledge and belief. Executed this 7th day of September, 2007, at San Francisco, California.

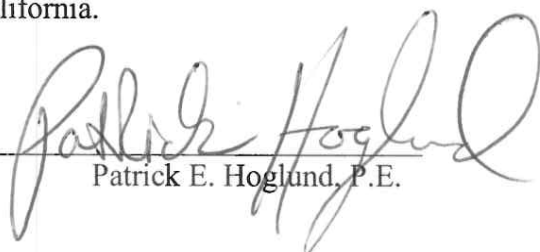

Patrick E. Hoglund, P.E.

Exhibit 2

DATA REQUEST

CALIFORNIA-AMERICAN WATER COMPANY

APPLICATION FOR AN INTEREST RATE OF 8.33% FOR ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) FOR ITS SAN CLEMENTE DAM MEMORANDUM ACCOUNT.

Data Request No. PHH-2

Application No.: A.07-02-23

Response provided by: Dave Stephenson

Title: Manager of Rates & Regulatory

Address: 4701 Beloit Drive
Sacramento, CA 95838

Company Response Number: AFUDC - PHH-2-1

Received Date: June 22, 2007

Due Date: July 02, 2007

Q.

1. Of the over \$100,000,000 in capital spending expected annually between 2007 and 2011, how much is expected to be funded through 1) short-term debt, 2) long-term debt, and 3) equity?

A.

1. California American Water currently maintains approximately 60% debt and 40% equity – including short-term debt. This is the maximum leveraged structure that will occur. Short-term debt is used between debt issuances and equity infusions as the financing vehicle. Short-term debt, by its definition, has to be financed into long-term debt and equity at least once every twelve months. California American Water does finance all short-term debt on an annual basis, unless the amount of total short-term debt is a minor portion of the capital structure.

Exhibit 3

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Data Request No. PHH-2

Application No.: A.07-02-23

Response provided by: Dave Stephenson

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Address: 4701 Beloit Drive
Sacramento, CA 95838

Company Response Number: AFUDC - PHH-2-3

Received Date: June 22, 2007

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Q.

What is the maximum amount of short-term debt available to Cal Am from American Water Capital Corporation? How is this amount determined?

A.

1. The line of credit is determined annually for American Water Capital Corporation ("AWCC") as a whole. California American Water provides an annual plan to AWCC as to its estimated needs. The estimates need to be fairly accurate as each American subsidiary is charged its pro-rata share of the cost of the line of credit. There is some flexibility during an annual period in the amount of short-term credit used depending on the use of the overall line of credit by all American subsidiaries. The current business plans for California American Water call for annual re-financing of all short-term borrowings.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**Reply Brief of the Division Of Ratepayer Advocates to the Opening Brief of California-American Water Company**” in **A.07-02-023** by using the following service:

[X] E-Mail Service: sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[] U.S. Mail Service: mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on September 7, 2007 at San Francisco, California.

/s/ JANET V. ALVIAR

Janet V. Alviar

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

* * * * *

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A.07-02-023

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